Journal of Agriculture and Environmental Sciences
March 2014, Vol. 3, No. 1, pp. 67-88
ISSN: 2334-2404 (Print), 2334-2412 (Online)

American Research Institute for Policy Development
42 Monticello Street, New York, NY 12701, USA.
Phone: 1.347.757.4901 Website: www.aripd.org/jaes

A Study of Effects of Microfinance Credit on Community Farmers in Upper Denkyira East Municipality of Ghana

Ernest Adu-Gyamfi[1] and Kwame Attafuah Ampofo[2]

Abstract

This study examined the effect of microfinance credit on community farmers in the Upper Denkyira East Municipality of Ghana. The study used the mixed approach research technique. Both qualitative and quantitative research methods were used for the study. Convenient sampling procedure was used to select two hundred (200) farmers for study and questionnaire and structured interview were the research instruments used to collect the data from the community farmers. From the study findings, 90% of the farmers do save their gains from farming at the microfinance institutions and it is established that the interest rates are high for the community farmers to deal with and farmers were negatively affected by the high interest rates being charged by the banks. The study concluded that microfinance credit has made a significant effect on the economic life of community farmers to increase their farms and yields. It was recommended that there should be more collaboration between the microfinance institutions and farmers. In addition, the prime rate charged by the central bank should be reduced to allow the other financial institutions to also reduce their interest rates and farmers should be educated on how to establish, manage, sustain and expand their farms.

Keywords: microfinance scheme, credit, community farmer, finance, interest rates

[1] Ernest Adu-Gyamfi, Ghana Education Service, Diaso Senior High School, Post Office Box DW 13 Diaso, Central Region, Ghana, Phone: 233243553874, E-mail: socialanalyst2004@yahoo.com
[2] Ghana Education Service, Adansi South, New Edubiase, Ashanti Region, Ghana

1.0 Introduction

Agriculture is the principal economic activity of the Ghanaian economy. Effective, efficient and rapid agriculture growth is a tool to accomplishing the country's socio-economic objectives. The performance of the agricultural sector is very crucial in the country's food security and poverty alleviation measures due to the fact that majority of the poor are staying in the rural communities and rely mainly on agriculture-based economic activities for their source of livelihood. Majority of the rural folks depend on farming for their livelihood (GLSS, 2007).

Moreover, it is believed that expansion of credit facilities will have tremendous effects on agriculture production of community farmers and rural incomes because credit would enhance the purchase of expensive inputs and adoption of alternative crops (Zeller et al.,). The availability of credit can motivate the community farmers to use and apply modern technologies, and procure inputs for farm use, thus leading them to a greater level of productivity and increasing and increasing their income (Llanto, 2003). As such, increase in household incomes is hugely required to ensuring food security and eventually will be realized from the gains in agriculture productivity through better technology and more production of yields. Therefore, farmers' access to financial markets is significant in influencing farm production and income (Zeller et al., 1998).

Many efforts have been achieved and a continuous search for sustainable intervention through credit scheme is being introduced to enhance the living conditions and quality of community farmers in rural communities (World Bank, 2000). However, such measures and interventions are often undermine by problems, which then contribute to the failure and collapse of several rural financial institutions, which are due to poor management and lack of good governance (Yaron et al., 1997).

Microfinance has been identified as one of the most efficient mechanisms of directly influencing the rural economy to help alleviate poverty by making available appropriate financial intermediation to the rural poor who are mostly unable to raise the essential collateral to access credit from the mainstream financial market. The provision of microfinance is also a shift away from the advancement of subsidized and unsustainable credits and grants advanced mostly by the governments to a more suitable needs oriented, more sustainable financial intermediation in the rural communities.

Microfinance Institutions consist of organizations such the Rural Banks, Savings and Loans Companies, credit unions, Susu companies among others. They employ character based methodologies rather the use of collaterals to reach out to the low income rural poor dwellers (Holt & Ribes, 1991).

Microfinance as a development organ applies short term loans with collateral substitutes such as group guarantors or compulsory savings. In Ghana the provision of microfinance services is usually accompanied with the provision of other non financial services such as business development training, advisory services, extension services, etc, aimed at building the capacity of clients. Institutions including the Grameen Bank of Bangladesh and K-Rep of Kenya (Yunus, 1994) have greatly influenced the methodology of microcredit delivery in Ghana. These institutions have revolutionized the methodologies and approaches to the delivery of Micro-finance.

1.1 Statement of the Problem

Over the years, the microfinance sector has done well and evolved into its current state due to various financial sector policies and programmes undertaken by different governments since independence. Microfinance in Ghana has shown to be a potent mechanism for promoting inclusive economic growth and employment generation. Government after government came with different strategies all aimed at eradicating poverty, notable among which were the Rural Development Strategy, the Poverty Reduction Strategy Paper (PRSP) and the most recent Livelihood Empowerment Against Poverty (LEAP).

Without qualm, the microfinance thought has endeared itself to both policy makers and a greater number of the community who have taken it as the better option to the conventional banking concept. For policy makers it is one of the successful ways of alleviating poverty as it makes banking reachable and reasonable to the poor and the disadvantaged in the nation. Due to the work that small and medium savers and borrowers have had to undergo in their bid to accessing credit from the formal banking system, most of them have resorted to the informal banking system outstanding of which is the microfinance in institution (Alabi et al, 2007 and Aryeetey, 1995).

Community farmers in Ghana utilize the microfinance institutions as a way of capital accumulation. By the nature of their occupation community farmers find it complicated, if not unfeasible, to transact business with formal financial institutions. This has forced them to embrace any form of micro credit facility due to convenience and flexibility the scheme offers in banking. In spite of the ever growing attractiveness of the microfinance institutions among most community farmers in Ghana, much research has not been done on how these microfinance institutions contributing to the economic enhancement of community farmers in Ghana.

1.2 Research Questions

The main research question to guide the study was to examine the effect of microfinance credit on community farmers in the Upper Denkyira East Municipality. The study would focus on the following specific research questions:

1. What is the extent of assistance that microfinance institutions give to community farmers in Upper Denkyira East Municipality?
2. What effect does microfinance credit have on community farmers in Upper Denkyira East Municipality?
3. What is the community farmers' perception on microfinance institutions interest rates?

1.3 Objectives of the Study

The general objective of the study was to examine the effect of microfinance credit on community farmers in the Upper Denkyira East Municipality.

The specific objectives were to:

1. To examine the extent of assistance that microfinance institutions give to community farmers in Upper Denkyira East Municipality.
2. To indentify the effect of microfinance credit on community farmers in Upper Denkyira East Municipality.
3. To assess community farmers' perception on microfinance institutions interest rate
4. To offer recommendations based on the findings of the study.

Significance of the Study

This study would be a valuable instrument to the government and the Ghanaian financial Planners. Moreover, it is envisaged that the outcome of this study would assist to build a consciousness of the utility of the microfinance institutions in the rural communities to the populace of Ghana and the policy makers. This would facilitate the country to implement strategies which will assist to accomplish the objectives of the community farmers. Finally, the findings of the study would offer data foundation for further research work.

2.0 Literature Review

2.1 Concept of Microfinance

In their broadest sense, microfinance makes the provision of a broad range of financial services such as deposits, loans, payments services, money transfers, and insurance to the poor and low-income households and their farm or non-farm micro-enterprises. (Charitonenko & Campion, 2003 cited in Mwenda & Muuka, 2004). Microfinance Institutions (MFIs) can be regular banks (private or governmental), specialized branches of commercial banks, or financial intermediaries such as governmental and non-governmental organizations (NGOs) whose main area of expertise is not banking per se(Fallavier, 1998 cited in Mwenda & Muuka, 2004). Services offered include credit extension (for production, consumption and emergency), access to savings facilities, and the provision of basic insurance, such as life, health, and among others.

Microfinance is a powerful tool for reducing poverty. It enables people to increase their incomes, to save and to manage risk. It reduces vulnerability and it allows poor households to move from everyday survival to planning for the future" (Paul Wolfowitz, World Bank President, November, 2005 cited in Dixon et.al.2007). This observation sums up the relevance of microfinance.

Microfinance is based upon providing small loans, often under $100, to the poor and very poor to enable them to earn additional income by investing in the founding or growth of "micro-businesses". More broadly, it aims at supplying micro loans, savings, and other financial services to the poor.

It operates on the premise that the poor will invest loans in micro enterprises, repaying those loans out of profits, and their businesses will grow, thereby potentially lifting large numbers out of poverty. These expectations are based on the premise that the poor will be 'empowered', encouraged to participate and equipped to self-manage their activities (Dixon et. al, 2007).

Premchander (2003) argues that microfinance generally refers to the provision of financial services (e.g.: savings, credit, insurance) to the poor, those who normally do not have access to formal financial institutions. Microfinance services are not only provided by specialized microfinance institutions (MFIs) that belong to the ''new world'' of micro enterprise finance (Otero & Rhyne, 1996 cited in Copestake 2007) but also by a diverse group of state sponsored and cooperative institutions, particularly postal banks, who serve many poor clients (CGAP, 2004b cited in Copestake 2007) along with a growing number of ''downscaling'' commercial financial institutions (Marulanda & Otero, 2005; The Economist, 2005; Valenzuela, 2002 cited in Copestake 2007). "Microfinance institutions consist of organizations and agents that engage in relatively small financial transactions using specialized, character-based methodologies to serve low-income households, small farmers and others who lack access to the banking system. They may be informal, semi-formal (that is, legally registered but not under the central bank regulation), or formal financial intermediaries" (Steel 1998 cited in Aryeetey, 2008, p.13).

2.2 Microfinance Institutions in Ghana

There are many institutions operating in Ghana offering various microfinance products. These microfinance institutions could be categorized as formal, semi-formal, or informal. Formal microfinance institutions include Rural and Community Banks (RCBs), and savings and loans companies. Semi-formal include non-governmental organizations (NGOs) offering financial services to the poor such as the credit union institutions that offer small loans to their members but do not take deposits from the general public. The informal microfinance institutions include the "susu" collectors and private registered and unregistered money lenders. There are also governmental institutions such as the Microfinance and Small Loans Scheme (MASLOC), Social Investment Fund (SIF), and the Community-Based Rural Development Program (CBRDP) that offer microfinance services to the poor.

The realization that the traditional banking system was unable to lend to poor rural people who do not have collaterals necessary to access loans led to the introduction of the concept of rural banking in Ghana in 1976 to enable the rural folks to have access to financial services. The first rural bank in Ghana was established in 1976 at Agona Nyakrom in the Central Region. Presently there are about 127 rural banks in Ghana (The ARB News, 2008). The main role of these rural banks is to deliver tailored financial services in the form of micro finance to the communities in which they operate. They mobilize small savings from farmers, market women, artisans, mechanics, fishermen and other petty traders and then give them small mostly unsecured loans.

The rural banking system has become a key vehicle for development of the economy of Ghana. Available records from the Bank of Ghana show that there had been a steady upward growth in the total deposits and advances granted to the customers of rural banks between 2002 and 2006 which had been attributed to the intensification of micro financial activities of these rural banks.

2.3 Microfinance as a Tool for Rural Poverty Reduction

Microfinance program is one of the poverty reduction strategies that have been adopted by developing nations. Microfinance or microcredit is defined by the Microcredit Summit (February, 1997) as programs that extend small loans and other financial services to the very poor people for self employment projects that generate income, allowing them to care for themselves and their families.

The microfinance movement is usually attributed to Mohammed Yunus Grameen Bank founded in the 1970’s in Bangladesh (Jolis, 1996). Microfinance programmes have now spread to South and South East Asia, Sub-Saharan Africa, Latin America and even America and other Western countries. Microfinance aims to reach the poor with loans, savings and other financial services tailored to meet the needs of the poor and the unbanked especially in the rural poverty-stricken areas. It targets those in the poor bracket who have minimum of assets and are operating at the fringes of the formal finance systems to help them expand their business frontiers (Von Pischke, Adams & Donald 1983).

It is recognized by development strategists that microfinance services enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. Since the 1970s when microcredit emerged as a development tool it has grown to cover almost every region of the world. Microfinance has thus become an enormous potential tool for poverty alleviation across the world.

A number of institutions including Rural and Community Banks, Credit Union associations and the Ghana Co-operative Susu Collectors Association have thus become involved in the delivery of microfinance to both the urban and rural poor. This is because, according to the World Bank, the development of a viable rural micro finance industry can be effective in reaching large numbers of the poor in both the rural and urban areas.

There is also evidence that the poor have strong incentive to save to raise capital to trade often in preference to credit but they lack the appropriate financial instruments to do so. Hence the provision of savings facilities by microfinance institutions in the rural areas provides the incentive for them to save. Rural Microfinance Institutions play a critical role in providing a platform for rural clients to undertake deposits for capital mobilizations.

Microfinance has thus become very strategic in poverty reduction strategies because of the recognition worldwide that conventional lending institutions do not provide avenues for the advancement of small and micro financial intermediation for micro enterprises and poor non collateralized rural dwellers (Mihyo, 1995). Conventional banking institutions do not lend to down market to serve the needs of low income households. These financial institutions require borrowers to have a steady source of income out of which repayments are made according to agreed terms and conditions. However the incomes of many micro enterprises are not stable and so are unable to meet these requirements. A large number of small loans are needed to serve the poor, but the conventional lending institutions prefer lending large loans in small numbers to minimize administrative costs. They also ask for collateral with a clear title which many low income poor rural families do not have.

2.4 Effect of Microfinance on the Rural Economy

The introduction of microfinance has in many ways impacted on the rural economy and brought about many changes in agriculture, rural housing, women empowerment and savings, reduction in vulnerability of the poor to adverse circumstances, increased household consumption and reduced income poverty. The development of the agriculture sector in any economy has been recognized as very important in attempts to reduce rural poverty. It requires the infusion of capital into the rural economy to enhance their capacity to acquire the needed technology to enhance production. In countries such as Ghana, Uganda, and Bolivia where agriculture development is central to rural poverty reduction there has been a renewed interest in finding the best ways in providing financial intermediation that would ensure sufficient supply of funds to the sector. Since most conventional banking institutions are traditionally very reluctant to enter the agriculture sector microfinance institutions have emerged to fill the void.

The Association of Microfinance Institutions of Uganda reports that in 2005 there were over 1,000 microfinance institutions operating as non – governmental organizations (NGOs), and Savings and Credit Cooperative (SAACOs) in Uganda. These microfinance institutions serve over 900,000 savers and 350,000 borrowers representing about 6 percent and 2.5 percent respectively of the population of Uganda. In Ghana agriculture contributes about 40 percent of the GDP and about 60 percent of the total export earnings. Agriculture is the main source of livelihood to about 60 percent of the population. It is predominantly subsistence, traditional and rain fed. Women play important role in agriculture, often making decisions about acreages to be cultivated. Financing agriculture in Ghana has historically been problematic due to the high risks and costs involved and the lack of proven instruments for mitigating production and credit risks. There is also the lack of financial instruments adapted to the needs of small farm holders. Credit flow to the agriculture sector (including the fisheries subsector) as of March 2007 was only 4.6 percent of total bank credits (Bank of Ghana, 2008).

Banks in Ghana continue to shy away from the agriculture sector due to bad lending experience and the lack of collaterals from the farmers to meet the security requirements for loans and other advances.

The agriculture sector continues to have the highest Non-performing loans (NPL) in the books of banks that do agricultural lending i.e. NPL of 25.8percent as at March, 2007 (Bank of Ghana 2008). This is one of the reasons for the low agricultural penetration by conventional lending institutions. There is the realization that the agricultural sector needs massive investments if the nation is to develop to move rural farmers and fishermen from their poor state. However Ghana lags behind in creating an efficient and sustainable rural financial system to serve the rural areas and agriculture.

To mitigate these problems many Rural and Community Banks have been encouraged by successive Ghanaian governments to establish branches in the rural areas to provide financial intermediation to these poor rural dwellers that are mostly into agriculture. The availability of microfinance facilities also enables these farmers and fishermen to better negotiate business arrangements with buyers and processors as they do not now depend on these buyers for credit to do their business.

Microfinance also helps to mitigate rural housing problems since many micro financing institutions have developed housing financing products to cater for the needs of the low income rural dweller. Microfinance housing loans are products tailored to the needs of the low income rural dwellers and are specifically geared towards the construction of houses. It takes the form of acquisition of inputs such as cement, roofing sheets, plots of land among other housing materials for the clients to discourage them from diverting the funds into other ventures the stages.

2.5 Challenges of Microfinance in Reducing Poverty

Microfinance program face great challenges some of which include using the loans effectively, and the extent of the funds reaching the poorest of the poor. A third problem is that there is the danger of borrowers becoming dependent on microcredit, rather than using it as a means to move away from poverty. The fourth challenge is that successes in microfinance may not hold in the long term.

Not all poor people can operate businesses successfully. Microcredit if not administered properly may force poor people or groups of borrowers into debt they cannot repay, or into business they can barely subsist (Montgomery et al, 1996). In some cases the clients of microfinance are afflicted with indebtedness caused by insufficiently income-earning enterprises in which they invest.

Hulme & Mosley (1996) found that an important proportion of enterprises financed by MFIs do fail. For instance, 10 percent to 25 percent of those supported by BancoSol, a leading MFI in Bolivia, and 25 percent of activities funded by the Malawi Mudzi Fund failed. A failed investment oftentimes means repayment difficulties particularly for the poorest. Other investments may fail not due to the failure of the MFI's procedures but because of external risk factors that may negatively affect the enterprise thus causing default in repayments.

Another challenge that faces the microfinance program is its ability to reach the poorest of the poor. It has been realized in studies in Bangladesh that most microfinance loans do not reach the poorest of the poor. Instead they tend to concentrate on the moderately poor members of the society. According to Zaman (2000), the poorest have a number of constraints (fewer income sources, worse health and education, etc) which prevent them from investing the loan in high return activity.

The moderately poor microfinance borrowers benefit more because they can borrow larger amounts and so the MFIs find it easier to deal with them than the poorest of society that need tiny amounts which are more costly to process even for microfinance institutions. As microfinance institutions are under pressure to become more self-sufficient the incentive to lend to such desperately poor borrowers evaporates (Mayoux, 1997).

3.0 Methodology

3.1 Research Design

The research design used for the study was the mixed approach. Both qualitative and quantitative research methods were used for the study. Research design is the specific data analysis techniques or methods that the researcher intends to use. The indispensable goal of mixed methods research is to undertake a given research question from any relevant angle, making use where appropriate more than one type of investigative perspective.

3.2 Study Population

The target population is farmers in the Upper Denkyira East Municipality, specifically, farmers from the study area who transact businesses with microfinance finance institutions in the municipality.

3.3 Sample and Technique

The convenient sampling procedure was used to select thirty (200) farmers for study. The convenient sampling method was used because of the sparsely distribution of farmers at the study area.

3.4 Data Sources

Both primary and secondary data were employed for the research study. The researcher reviewed relevant literature from secondary sources to assemble information as well as expand knowledge base to make conclusions about the subject matter. Journals, publications and the Internet were employed to understand the concepts, key components, principles and dynamic operations of the microfinance institutions.

3.5 Research Instrument

Questionnaire and structured interview were the research instruments used to collect the data from the community farmers. The questionnaire was used in order to get a standard form of answers or responses. The use of interview helped the researchers to tailor the questions they asked to the respondent in order to get the information they need for this project.

4.0 Results and Discussion

4.1Characteristics of the Respondents

4.1.1 Socio-economic Characteristics of the Respondents

The socio-economic characteristics of the respondents in this study are presented in this section.

Table 1 depicts the age distribution of the respondents. From Table 1, 60% of the farmers are above the age of 40. Whiles the 35% of the farmers are within the ages of 31 - 40 and 5% of the respondents are within the ages of 21-30above. Most farmers in the rural communities are dominated by the aging population.

Table 1: Age distribution of respondents

Response	Frequency	Percentage
21-30	10	5
31-40	70	35
Above 40	120	60
total	200	100

Source: Field survey, 2012

The age structure of the population in a country provides a picture of the level of age dependency in the economy and also serves as a determinant for measuring economic activity of the population. It also gives an indication of the level of awareness and responsibility within the populace. The ages of the respondents interviewed reflect a high rate of the population who are economically active.

4.1.2 Gender Distribution of the Respondents

The results from Table 2 indicate that out of the total of 200 respondents covered 70 were females and 130 males. We could see that 65% of the respondents are males whiles 55% of them are females.

Table 2 Gender Distribution of the respondents

Response	Frequency	Percentage
Male	130	65
Female	70	35
Total	200	100

Source: Field survey, 2012

4.1.3 Educational Level of Respondents

This was to know the educational levels of the participants of the microfinance program as pertains in the Upper Denkyira East Municipality. The low presence of respondents with higher education implies that microfinance programs are patronized more by people with lower education. From Table it can be seen that 45% of the respondents have Non-formal education and 5% have tertiary education. This implies that people with low levels of education discover it easier to access funds from the MFIs than the normal banking institutions.

Table 3: Educational level of respondents

Response	Frequency	Percentage
Non- formal education	90	45
Basic Education	60	30
SHS	40	20
Tertiary	10	5
Total	200	100

Source: Field survey, 2012

4.1.4 Marital status of Respondents

Marital status reflects a person's level of commitment, responsibility and mobility among other factors. Knowledge about the marital status of community farmers was necessary to ascertain their level of commitment and responsibilities to themselves, their families and to society as a whole. In general, people who are married have high financial and social responsibilities to meet.

Table 4 Marital status of respondents

Response	Frequency	Percentage
Married	185	90
Single	15	10
Total	200	100

From Table 4, majority (90%) of the respondents is married and only 16.7% of them are not married. The result indicates that majority of the women interviewed were married which was good for the study.

4.1.5 Occupation of Respondents

The occupation of the respondents was also analyzed and the results are set out below in Table 5.From Table 5, 57.5% of the respondents are into other businesses or works and 42.5% of them relay on farming as their main occupation.

Table 5 Question on 'Is farming your only livelihood?'

Response	Frequency	Percentage
Yes	115	57.5
No	85	42.5
Total	200	100

Source: Field survey, 2012

4.2 'Do you save Money at the Financial Institutions?'

From Table 6, shows that (90%) the farmers do save their gains from farming at the financial institutions. This means that, the farmers believe that the financial institutions are the safest or secured places for keeping their monies. In spite of the fact that they save at the financial institutions, only a handful of them saves at the main commercial banks. Furthermore, their interest rates are very high.

Table 6 Savings at microfinance institution by community farmers

Response	Frequency	Percentage
Yes	180	90
No	20	10
Total	200	100

Source: Field survey, 2012

4.3 'Have You Ever Applied for a Loan?'

From Table, 75 % of the farmers have applied for a loan before and 25 % have not even attempt to apply for a loan because of the fear of high interest rates being charge by the microfinance institutions.

Table 7 Loan application

Response	Frequency	Percentage
Yes	150	75
No	50	25
Total	200	100

Source: Field survey, 2012

4.4 Interest Rates of Institutions

From Table 8, it is clear that the interest rates are high for the community farmers to deal with. Therefore, high interest rate leads to low demand of credit.

Table 8 Perception of customers about the interest rates

Response	Frequency	Percentage
High	200	100
Moderate	0	0
Low	0	0
Total	20o	100

Source: Field survey, 2013

4.5 Farmers' Perception on Interest Rates of Microfinance

All community farmers (100%) worried from borrowing from the banks as shown in Table 9. As we can see from Table 7 above, almost 25 % of the farmers did not borrow from the microfinance institutions just because of the high interest rates. This finding confirmed what Hulme & Mosley (1996) found that an important proportion of enterprises financed by MFIs do fail. A failed investment often times means repayment difficulties particularly for the poorest.

Table 9 Community farmers' worry on interest rate

Response	Frequency	Percentage
Yes	200	100
No	0	0
Total	200	100

Source: Field survey, 2012

4.6 'Does the High Interest Rate Affect Your Farming?'

From Table 10, all (100%) the farmers were affected negatively by the high interest rates being charged by the banks. Some were not able to borrow; others had to sell some of their farming assets in order to pay back the loans they have borrowed from the banks. This has really collapsed a lot of the infant farms in the country.

Table 10 Effect high interest on community farmers

Response	Frequency	Percentage
Yes	200	100
No	0	0
Total	200	100

Source: Field survey, 2012

4.7 'Do you find it Hard-Hitting Paying the Credit Back?'

Out of the 200 respondents or farmers who said they borrowed from the microfinance institutions, none of them found it easy paying the loans back as shown in Table 11 above. Some of them said they were able to pay back the loans by selling all or some of their farming assets. This supports Montgomery (1996) posited that microcredit if not administered properly may force poor people or groups of borrowers into debt they cannot repay, or into business they can barely subsist.

Table 11 Payment of credits and interest

Response	Frequency	Percentage
Yes	200	100
No	0	0
Total	200	100

Source: Field survey, 2012

4.8 Effects of Microfinance Credit on Community Farmers

This question generated varied responses from the respondents. Significantly, it can be seen that to the respondents their participation in the microfinance program of the bank has had a beneficial effect on their businesses.

This question generated varied responses from the respondents. Significantly, it can be seen that to the respondents their participation in the microfinance scheme has had a beneficial effect on their farming. Results from Table 12, indicate that 50% of the respondents use credit to expand their farming activities and 25% are now using the microfinance credit to buy farm input with 20% of the respondents said they use credit from microfinance institutions to adopt new technology. This confirms Mihyo (1995) assertion that microfinance has thus become very strategic in poverty reduction strategies because of the recognition worldwide that conventional lending institutions do not provide avenues for the advancement of small and micro financial intermediation for micro enterprises and poor non collateralized rural dwellers.

Table 12: Effects of microfinance credit on community farmers

Response	Frequency	Percentage
Buy farm input	50	25
Adopting new technology	40	20
Expand farming	100	50
Others	10	5
Total	200	100

Source: Field survey, 2012

4.9 Sources of Finance for Business Prior to Joining the Microfinance Program

Of the 200 participants covered by the research 40% of the respondents had gotten their funding for their farming business from money lenders. This is closely followed by 30% of respondents securing funds from family members with 20% of the respondents receiving funding from friends. It must be noted that most microfinance businesses are family centered with the whole family engaged in them. This could explain why family members help each other with funding to set up their businesses. Others also engaged in trade by purchasing items/goods on credit terms

Table 13: Sources of finance for community farmers

Response	Frequency	Percentage
Money lenders	80	40
Family	60	30
Friends	40	20
Others	20	10
Total	200	100

Source: Field survey, 2012

5.0 Summary of Findings of the Study

The study examined the effect of microfinance credit on community farmers Upper Denkyira East Municipality of Ghana. It was found out that all the community farmers transact business with microfinance institutions. From the study 90% of the farmers do save their gains from farming at the microfinance institutions and it is clear that the interest rates are high for the community farmers to deal with.

Again, all the respondents admitted that they are afraid of borrowing from the banks.

Farmers were affected by the high interest rates being charged by the banks. Some were not able to borrow; others had to sell some of their farming assets in order to pay back the loans they have borrowed from the banks.

Out of the 200 respondents or farmers who said they borrowed from the microfinance institutions, none of them found it easy paying the loans back and it can be seen from the study that respondents' participation in the microfinance scheme has had a beneficial effect on their farming.

5.1 Conclusions

From the analysis the following conclusions could be made. The conclusion of the study is that the microfinance credit has made a significant effect on the economic life of community farmers and more community farmers take part in microfinance scheme and poverty is endemic in the rural communities. In addition, high interest rates undermine farming businesses.

5.2 Recommendations

Based on the findings of the research, the following recommendations are made:

- The microfinance institutions should conduct the feasibility of engaging the credit staff in the acquisition of farm equipments such as irrigation pump machines for farmers
- Supplementary credit unions should be established in the various rural communities.
- There should be more collaboration between the microfinance institutions and farmers.
- In addition, the Prime rate charged by the central bank should be minimised to allow the other financial institutions to also reduce their interest rates.
- Farmers should be educated on how to establish, manage, sustain and expand their farms.
- The competence of microfinance institutions should be improved to by the government and other donor organizations enable them increase lending to clients in other sectors of the economy

References

Alabi, J., Alabi, G. and Ahiawodzi, A. (2007) 'Effects of "Susu"- A Tradition Micro-finance Mechanism on Organized and Unorganized Micro and Small Enterprises (MSEs) in Ghana' African Journal of Business Management Vol.1 No.8, pp.201-208

Aryeetey, E. (2008) From Informal Finance To Formal Finance: Lessons from Linkage Efforts, Paper Presented at the High-Level Seminar on African Finance for the 21st Century Organized by the IMF Institute and the Joint Africa Institute Tunis, Tunisia, March 4 – 5

Asiama P. and Osei V. (2007) Microfinance in Ghana: An overview. Research Department - Bank of Ghana, Economic Web Institute.

Association of Rural Banks Ghana (2008). *The ARB news*. Accra.

Copestake, J. (2007) "Mainstreaming Microfinance: Social Performance Management or Mission Drift?" *World Development,* Vol. 35, No. 10, pp. 1721–1738

Holt, S. L. & Ribes, H. (1991). *Developing financial institutions for the poor and reducing barriers to access.* Washington D.C: World Bank.

Hulme, D and Mosley, P (1996) Finance Against Poverty, volumes 1 and 2, London: Routledge

Jolis, A. (1996). *The good banker.* The Independent (Accessed 5 May 1996) http://gdrc.org/icm/grameen-goodbanker.html.

Kessey, C. (2005). Empowering Muslim Women Through Microcredit Scheme: The Case of the Sunyani Gonja Muslim Women's Group, W O P A G - Working Papers on Ghana : Historical and Contemporary Studies, Number 7

Llanto, G. (2003). A Microfinance Promise to Provide the Poor Access to Finance Services. Philipine Institute of Development Studies, Makati.

Mayoux, L. (1997). *The magic ingredient? Microfinance and women's empowerment*. Briefing Paper for the Micro Credit Summit, Washington DC.

Micro Credit Summit (1997). *Declaration and plan of action*. Educational Fund, Washington DC.

Mihyo, P. (1995). *Credit and employment activities: A case study of Ghana.* Policy Seminar on confronting the challenges of poverty and employment in Accra. Accra: GIMPA.

Montgomery, H. and Weiss, J. (2000) 'Modalities of Microfinance Delivery in Asia and Latin America: Lessons for China', *China & World Economy* Vol. 14, No. 1, pp.30 – 43,

Mwenda, K.K. and Muuka, G.N. (2004).Towards Best Practices For Micro Finance Institutional Engagement In African Rural Areas Selected Cases And Agenda For Action, *International Journal of Social Economics*, Volume 31, Number1/2 pp. 143-148

Non-Banking Financial Institutions (NBFI) Project, Inventory of Ghanaian Micro-finance Best Practices. Chord,(April 2000)

Otero, M. & Rhyne, E. (1994). *The new world of microenterprise finance – building healthy financial institutions for the poor*. Connecticut: Kumarian Press.

Premchander, S. (2003) NGOs and Local MFIs—how to increase Poverty Reduction through Women's Small and Micro-enterprise, *Futures* 35, pp.361–378

Von Pischke, Adams, D. W. & Donald, G. (1983). *Rural financial markets in developing countries.* Baltimore: Johns Hopkins Press.

World Bank (200). Phillipines Rural Development and Nutural Resource Management. Trends, Strategy I mplementation and Frame Work Performance Indicator System. The World Bank Rural Development and Nutural Resources

World Bank (1994).Findings-Africa Region, Number 26, Washington DC

World Bank, (2008). *Finance for All? Policies and Pitfalls in Expanding Access.*

A World Bank Policy Research Report. Washington D.C.: The World Bank.

Yaron, J. et al (1992). Rural Finance in Developing Countries World Bank's Agricultural Policies Working Psper. World Bank, Washington D.C. Implication for Research and Policy Intervention Food Policy Research Institue. Washington D.C

Yunus, M. (1994). *Does the capitalist system have to be the hand maiden of the rich?* Keynote address delivered at the 85th Rotary International Convention. Taipei, Taiwan.

Yunus, M. (2007). *Grameen at a glance.* Dhaka, Grameen Bank.

Zaman, H. (2000). *Assessing the poverty and vulnerability impact of micro-credit in Bangladesh: A case study of BRAC.* Office of the Chief Economist and Senior Vice-President (DECVP), Wahington DC: World Bank.

Zeller, M et al (1997) Rural Finance for Food Security for the poor. Implication for Research and Policy Intervention Food Policy Research Institue. Washington D.C

Zeller, M. et al (1998) Market Access by Smallholder Farmers in Malawi: Implication for Technology adoption, Agricultural Productivity and Crop Inome. Agricultural Economics, 19, 219-229

Zeller, M. & Sharma, M. (1998). *Rural finance and poverty alleviation*. Food Policy Report. International Food Policy Research Institute. Washington, D.C: World Bank.